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UNCLAS SECTION 01 OF 02 ASHGABAT 000309

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STATE FOR SCA/CEN (PERRY) AND EEB; KUALA LUMPUR PLEASE PASS TO SCA
PDAS MANN

E.O. 12958: N/A

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SUBJECT: Information on Malaysian Oil Company Petronas

Summary

1. (SBU) Malaysian oil company Petronas, which signed a 25-year production sharing agreement (PSA) in 1996 to develop the offshore Block 1 in the Caspian Sea, has a large and expanding presence in Turkmenistan. Block 1 resources have been estimated at a level of: 1 trillion cubic meters (tcms) of gas, 200 million tons of oil and 300 million tons of gas condensate. In addition to its Block 1 hydrocarbon extraction activities, Petronas also is building an onshore LNG gas treatment plant and gas terminal at Kiyanly. Petronas reportedly is considering construction of a new pipeline to Kazakhstan. Post estimates Petronas investment in Turkmenistan may have surpassed \$350 million. End Summary.

Petronas Investment Estimated at \$350 Million

2. (SBU) Embassy Ashgabat provides the following in response to SCA PDAS Mann's request for information on the scope and size of Malaysian oil company Petronas' activities in Turkmenistan. Post estimates Petronas may have invested over \$350 million in its operations in Turkmenistan.

History of Petronas Presence in Turkmenistan

3. (U) Petronas, the National Malaysian Petroleum Corporation, signed a 25-year PSA to develop the offshore Block 1 in the Caspian Sea in 1996. The initial exploration license was issued to the Malayan firm for six years, until 2002. In 2002, the company received a three-year extension to complete its exploration activities. In 2003, after an unsuccessful experience with an Iranian drilling subcontractor, Petronas signed an eight-year drilling agreement with Transocean, a U.S. company. By the end of 2005, Petronas had six exploration wells and one production well in Turkmenistan. As part of its exploration effort, the company also conducted 2D and 3D seismic surveys from 1998 to January 2005.

Block-1 Resources: At Least 200 Million Tons of Oil

4. (SBU) In 2005, Russian periodical "Neftegazovya Vertical" quoted Petronas geologists, who estimated Block-1 resources as "no less than 1 trillion cubic meters (tcms) of gas, 200 million tons of oil and 300 million tons of gas condensate." The same magazine also

stated that, after exploratory drilling in 2005, the company planned to increase the estimates of its reserves in the Caspian by 5 billion cubic meters (bcms) of gas and 2 million tons of condensate.

In May 2006, a Transocean representative informed embassy that four of the five wells it had drilled had struck commercial deposits of hydrocarbons, mostly natural gas. Petronas contracted the U.K. firm, Gaffney Cline and Associates, to certify its discovered resources.

Petronas Puts in Place Mobile Offshore Production Unit

15. (SBU) Early in 2006, Petronas brought into the country a mobile offshore production unit (MOPU) and a Floating Storage and Off-loading system (FSO). The systems, which allowed Petronas to offload the oil to tankers, eliminated the need to lay an oil pipeline to transport oil from the offshore rigs to the shore. Petronas has not yet announced its 2006 production statistics.

Expansion Includes Gas Treatment Facility, Gas Terminal

16. (SBU) In 2004 Petronas and Turkmenistan announced their plans to build a gas treatment facility and an onshore gas terminal for 10 bcm a year in Kiyanly, north of Turkmenbashi. The facilities were intended to be connected to the CAC-3 main line. These plans were later confirmed on different occasions by Transocean and Turkish construction firm Gap Insaat. Transocean informed embassy that, by 2009, Petronas will build a natural gas pipeline from its offshore facilities to Kiyanly. Gap Insaat has been preparing earth works for the onshore gas treatment facility and gas terminal for over a year. The company told embassy officers that most engineering would be done by Malaysian companies, including Malaysia Marine and Heavy Engineering Sdn.Bhd.

ASHGABAT 00000309 002 OF 002

Arrangements to Transport Petronas Gas North

17. (U) The IEA (International Energy Agency) mission report of September 2005 mentioned that mission members had learned that the Government of Turkmenistan had requested Petronas to look into the feasibility of rehabilitating the Turkmenistan sector of the Central Asia Center system, or to construct a new pipeline. In June 2006, the KazTransGaz (the Kazakh state-run gas transport company, part of the KazMunayGaz National Oil and Gas Company) and Petronas Carigali (Turkmenistan) Sdn.Bhd signed a memorandum of understanding on the transportation of natural gas from Turkmenistan via the Kazakh net of pipelines, Okarem-Beyneu and Central Asia-Centre 3, to Russia. (Note: CAC-3 and CAC-1, -2, and -4 merge in Beyneu. End Note.)

18. (U) Burren Energy's interim 2006 annual report stated that the company was discussing with the Government of Turkmenistan the possible export of gas from the Burun field. Another company report further specified that Burren was considering either linking directly to the CAC-3 or arranging a tie-in with Petronas and Dragon Oil to a pipeline to Kazakhstan.

19. (U) According to "Neftegazovya Vertical," Petronas will build two pipelines to the shore by 2008: a 26-inch gas pipeline and a 12-inch gas condensate line. For further transportation of commercial gas, Petronas plans to build a 24-inch connect to CAC-3. The built-in capacity of CAC-3 is 10 bcm a year.

2006 Meeting with Niyazov: No Concrete Developments

10. (U) On September 8, 2006, Petronas' leadership met with President Niyazov to discuss further cooperation. There were no reports of new substantive developments coming from that meeting.

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